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SUBJECT: CODEL SKELTON-FORBES MEETING WITH VFM ZHANG YESUI
ON IRAN, PRODUCT SAFETY, TRADE, IPR, SECURITY COOPERATION

Classified By: Political Minister Counselor Aubrey Carlson. Reasons 1.
4 (b/d).

Summary

¶1. (C) CODEL Skelton cited strong constituent concern in urging Vice Foreign Minister Zhang Yesui on August 27 to cooperate with efforts to solve the Iran nuclear issue, take steps to alleviate the American public's worries over the safety of Chinese exports and the U.S.-China trade deficit and do more to combat Chinese violations of intellectual property rights (IPR). VFM Zhang advised giving more time for negotiations between the Iran and the International Atomic Energy Agency (IAEA), adding that the United States and China have no "strategic differences" on the Iran nuclear issue, but support "different approaches to the same goal." Zhang emphasized the need for "joint efforts" on issues of product safety, trade and IPR, suggesting that China is not solely responsible for problems in these areas. The two sides also discussed mutual security concerns and shared interest in collaborating on such issues as Iran, North Korea, Sudan and the Middle East. End Summary.

¶2. (U) A delegation led by House Armed Services Committee Chairman Ike Skelton (D-MO) and including Representatives Randy Forbes (R-VA), John Spratt (R-SC), Robin Hayes (R-NC), Jeff Flake (R-AZ), Carol Shea-Porter (D-NH), Delegate Madeleine Bordallo (D-GU) and Rear Admiral Mark Ferguson met with Vice Foreign Minister Zhang Yesui at the Foreign Ministry August 27.

"No Strategic Differences" On Iran, Says Zhang

¶3. (C) VFM Zhang told the HASC delegation on August 27 that the United States and China have no "strategic differences" on the Iran nuclear issue, but rather support "different approaches to the same goal." He emphasized Iran's right to peaceful use of nuclear energy, but acknowledged Iran's loss of the international community's trust. On the topic of UN sanctions, Zhang said "timing is very important" and Iran should be allowed time to complete negotiations with the IAEA.

¶4. (C) VFM Zhang reiterated China's stance on weapons sales to Iran, maintaining that such trade is "in accordance with UN Security Council resolutions" and "limited." Chinese law stipulates that China only sells arms to foreign governments and forbids buyers from re-selling to third parties, Zhang added. Asked by Representative Flake (R-AZ) for China's opinion on potential U.S. sanctions on Iran, VFM Zhang noted Iran's current cooperation with the IAEA and remarked that sanctions now would "not be conducive" to resolving the problem. A new resolution should not affect China's economic and trade interests vis-a-vis Iran, Zhang added. Zhang noted that China will send a delegation to the next meeting of P5-plus-1 talks in Washington.

Product Safety Concerns

15. (SBU) Representative Forbes (R-VA) pressed VFM Zhang on what steps China could take to alleviate the American public's concerns over the safety of Chinese exports. VFM Zhang replied that the Chinese Government pays close attention to the issue. For example, he said, Vice-Premier Wu Yi is heading a Central Government leading group, which will conduct a nationwide campaign focused on production procedures, licensing and testing of food and manufactured products through the rest of the year. This is only a "first step," he said.

16. (SBU) VFM Zhang claimed that 99 percent of Chinese exports are safe, a rate better than that of the United States. He added that even one percent of products being "unsafe" is unacceptable, and China will continue efforts to improve in this area. VFM Zhang said producers and importers share responsibility for product safety, and China and the United States must work together in this respect. He complained that the U.S. media sensationalized and politicized the issue. Representative Forbes called for U.S. companies to be able to conduct safety inspections "further up the (production) chain."

Trade Issues: Imbalance, Market Access

17. (SBU) Representatives Forbes (R-VA), Bordallo (D-GU) and Spratt (D-SC) challenged China's earnestness in addressing the U.S. trade deficit with China and in expanding access to the Chinese market for American companies. Representative

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Forbes pointed out that only twenty American motion pictures are allowed to be shown in China each year. VFM Zhang stated that the trade deficit is the result of the present "economic structure," not China's exchange rate. Zhang noted that the RMB has appreciated nearly 10 percent against the dollar since July 2005, but has "not significantly changed" the two countries' trade imbalance. Zhang also called attention to United States' hindrance of Chinese investment in the U.S. economy "for political or security reasons" to highlight the need for "joint efforts" in addressing the problem. After Zhang cited China's CNOOC oil company's failed bid in 2005 to buy Unocal as an example, Representative Hayes responded that such deals are only a "small component" of greater potential for Chinese business expansion in the United States. Zhang also pointed to U.S. export controls as a contributing factor to the trade deficit.

18. (SBU) Chairman Skelton and Representative Hayes (R-NC) pressed VFM Zhang on the issue of Chinese restrictions on imports of U.S. beef. Zhang referred to President Bush's mention of the issue to Vice Premier Wu Yi in May 2007 and suggested mad-cow disease concerns as one reason for such restrictions. China's partial lifting of a ban on American beef is evidence of China's intentions to build trust, stated Zhang. Representative Shea-Porter (D-NH) raised the issue of China's exporting steel at unfairly low prices, a concern VFM Zhang said he would pass along to the Ministry of Commerce.

Do More to Fight IPR Violations

19. (SBU) VFM Zhang stressed that the United States and China must work together to combat intellectual property rights (IPR) violations, noting that some orders for counterfeit products come from the United States. Movies that end up being counterfeited also somehow illegally make their way out of the United States. Zhang held that the Chinese Government is resolutely against IPR violations and has made "remarkable progress," but acknowledged that problems remain. Representative Forbes noted China's efforts, but reminded VFM

Zhang that "floors" of counterfeit products could be found "just a short drive away." Representative Flake raised his concern over case being litigated in China involving a constituent. Zhang assured Representative Flake that the case would be handled in accordance with the law.

Security Cooperation

¶10. (SBU) Representative Spratt expressed hope that the United States and China could strengthen cooperation regarding "common security concerns" and proposed using security for the 2008 Olympics as a basis for further collaboration. VFM Zhang "fully agreed" that China and the United States have "increasingly shared interests," giving Iran, North Korea, Sudan and the Middle East as examples.

¶11. (U) The delegation cleared this cable.
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